

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SAJ-01 USPS-01 STR-04 SP-02 AID-05

EB-07 NSC-05 CIEP-01 TRSE-00 SS-15 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02

OPIC-03 LAB-04 SIL-01 L-03 H-02 PA-01 PRS-01 /089 W

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FM AMEMASSY OTTAWA

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POUCHED TO ALL CONSULS IN CANADA

E.O. 11652: N/A

TAGS: ECON, ELAB, CA

SUBJECT: RECENT DEVELOPMENTS IN ANTI-INFLATION PROGRAM

1. SUMMARY: THIRD WEEK OF ANTI-INFLATION PROGRAM ANNOUNCED BY PM TRUDEAU ON OCTOBER 13 SAW BREAKDOWN IN POSTAL STRIKE NEGOTIATIONS, INTRODUCTION OF NEW HOUSING PROGRAM, CONTINUATION OF DEBATE ON LEGISLATION IN PARLIAMENTARY COMMITTEE, SOME PROVINCIAL COMPLEMENTARY ACTION TO FEDERAL PROGRAM, CONTINUED HARD-SELL OF PROGRAM TO THE POPULACE, AND SURFACING OF RUMORS REGARDING FEDERAL SNAP ELECTION OVER CONTROLS AFTER JANUARY 1. END SUMMARY.

2. WHILE HOUSE OF COMMONS FINANCE COMMITTEE HEARINGS CONTINUED ON LEGISLATION IMPLEMENTING GOC NEW ANTI-INFLATION POLICY, RUMBLES OF DISCONTENT OVER WAGE CONTROLS GREW LOUDER FROM ORANIZED LABOR. MOST DRAMATIC CHALLENGE TO CONTROLS HAD BEEN MOUNTED BY STRIKING POSTAL WORKERS, AND AFTER WEEK OF "SETTLEMENT-IS-AROUND-CORNER" HEADLINES IN LOCAL PRESS, TALKS

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BROKE DOWN ON WAGE SETTLEMENT, AS POSTMASTER GENERAL

MACKASEY REFUSED BUDGE FROM PREVIOUSLY ANNOUNCED WAGE OFFER (SEE OTTAWA 4194).

3. COMMITTEE HEARINGS FAILED PRODUCE ANY NOTABLE CLARIFICATION OF GOC'S ABILITY AND MECHANISMS FOR CONTROLLING PRICES OTHER THAN FINMIN MACDONALD'S STATEMENTS THAT SOME COMPANIES WOULD BE REQUIRED FURNISH ADVANCE NOTICE OF SOME PRICE INCREASES, BUT MACDONALD ANNOUNCED C\$600 "MINIMUM" WAGE INCREASE FOR LOWER-INCOME GROUP SETTLEMENTS WOULD BE DROPPED. ON NOVEMBER 7 HE INTRODUCED SEVERAL AMENDMENTS TO THE LEGISLATION WHICH WOULD ALLOW THE ANTI-INFLATION REVIEW BOARD TO "FINE-TUNE" THE ECONOMY BY ESTABLISHING GUIDELINES FOR DIFFERENT CATEGORIES OF INDUSTRIES.

4. BANK OF CANADA PRESIDENT BOUEY TOLD COMMITTEE THAT BANK WOULD FOLLOW RESTRICTIVE MONETARY POLICY IN LINE WITH ANTI-INFLATION PROGRAM BY GRADUALLY REDUCING RATE OF GROWTH IN MONEY SUPPLY, BUT HE REFUSED PREDICT WHAT MONEY SUPPLY GROWTH WOULD BE IN UPCOMING MONTHS.

5. ON NOVEMBER 4, URBAN AFFAIRS MINISTER DANSON REVEALED IN PARLIAMENT NEW GOC HOUSING PROGRAM, HERALDED BY HIM AS METHOD TO PROVIDE "GOOD QUALITY HOUSING THAT LOWER AND MIDDLE INCOME CANADIANS NEED AND CAN AFFORD." PROGRAM, FOR WHICH LEGISLATION NOT YET INTRODUCED, WILL PROVIDE ADDITIONAL SUBSIDIES TO HOME BUYERS AND BUILDERS, BUT DANSON WAS UNABLE TO ANSWER OPPOSITION CRITICS ON COST OF PROGRAM.(SEPARATE AIRGRAM FOLLOWS ON DANSON'S PROPOSAL).

6. BEFORE ANNOUNCING FEDERAL HOUSING PROGRAM, DANSON MET WITH PROVINCIAL HOUSING MINISTERS AND APPARENTLY GOT COMMITMENT FOR SOME TO ESTABLISH PROVINCIAL RENT CONTROL OR REVIEW BOARDS. ONTARIO GOVERNMENT INTRODUCED LEGISLATION DURING WEEK TO SET UP RENT BOARD AND, EXCEPT FOR CERTAIN RENTAL PROPERTIES, LIMIT RENT INCREASES TO EIGHT PERCENT FOR YEAR.

7. WHILE ON HUSTINGS TO SELL ANTI-INFLATION PROGRAM, LIMITED OFFICIAL USE

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PM TRUDEAU WAS QUESTIONED SHARPLY RE CABINET DECISION RAISE TOP CIVIL SERVANTS PAY BY AS MUCH AS C\$6,500 PER YEAR. TRUDEAU DEFENDED ACTION FIRST BY CLAIMING DECISION MADE LAST JULY AND THEN MAINTAINING SALARY INCREASE WAS WITHIN GUIDELINES, (FORGETTING, AS PRESS WAS QUICK TO POINT OUT, THAT WHILE INCREASES MIGHT BE BELOW 10 PERCENT THEY WERE FAR IN EXCESS OF \$2,400 MAXIMUM DECREED IN GUIDELINES). HIS EXPLANATIONS

WENT UNHEEDED BY CRITICS WHO DEMANDED GOC OFFICIALS SHOW SIMILAR RESTRAINTS IN GOVERNMENT SPENDING TO THOSE BELT-TIGHTENING MEASURES MINISTERS WERE ASKING OF OTHER SEGMENTS OF ECONOMY. TRUDEAU'S APPOINTMENT OF JUNEAU, FORMER MINISTER OF COMMUNICATIONS AND RECENTLY DEFEATED MP CANDIDATE, AS SPECIAL ADVISOR TO TRUDEAU WITHOUT SPECIFIED DUTIES DREW ADDITIONAL HOWLS FROM CRITICS OF "EVER-EXPANDING" PM'S OFFICE.

8. RECURRENT THEME IN MINISTERIAL PITCH TO GROUPS THROUGHOUT COUNTRY ON ANTI-INFLATION PROGRAM WAS NEED FOR CANADIANS "TO LOWER THEIR EXPECTATIONS." THIS MESSAGE CONTRASTED STRONGLY WITH "HOW GOOD WE CANADIANS HAVE IT AS OPPOSED TO REST OF THE WORLD" THEME PRO-POUNDED BY SAME MINISTERS ONE YEAR AGO. STRONG ELEMENTS OF "LIMITS OF GROWTH" PHILOSOPHY SEEMED PERVERSE TRUDEAU'S SPEECHES COUPLED WITH THREATS OF COMPLETE FEDERAL CONTROL OF ECONOMY IF PUBLIC DID NOT ACCEPT LIMITED CONTROL.

9. IN SPITE OF REQUESTS BY OPPOSITION MPS TO BRING DOWN NEW BUDGET SOON IN ORDER PROVIDE GOC ESTIMATES ON REVENUE AND EXPENDITURES UNDER NEW PROGRAMS, FINMIN MACDONALD TOLD PARLIAMENT NO NEW BUDGET TO BE PRESENTED UNTIL AFTER CHRISTMAS. HE CLAIMED, HOWEVER, THAT ESTIMATES FOR EXPENDITURES WILL BE REDUCED TO THE POINT WHERE "THERE WILL BE CONSIDERABLE POLITICAL IMPACT." THIS DECISION NOT TO PRODUCE A BUDGET NOW LEFT CRITICS SPUTTERING ABOUT SIZE OF POTENTIAL DEFICIT FOR YEAR AND UNANSWERED QUESTIONS REGARDING GOC EFFORTS IMPLEMENT ITS RESTRICTIONS ON GROWTH IN FEDERAL EXPENDITURES.

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QPM ON NOVEMBER 6 OTTAWA JOURNAL CARRIED FRONT-PAGE ARTICLE REGARDING STRONG RUMORS IN PARLIAMENT THAT TRUDEAU WOULD CALL SNAP ELECTION AFTER JANUARY 1 IN ORDER OBTAIN PUBLIC MANDATE ON ANTI-INFLATION PROGRAM. NO OTHER NEWSPAPERS HAVE THUS FAR PICKED UP JOURNAL STORY.

11. COMMENT: ANTI-INFLATION PROGRAM IS OFF TO RATHER SHAKY START WITH MAJOR GOVERNMENT ACTION CONFINED TO SALES PROMOTION. ANTI-INFLATION REVIEW BOARD IS STILL IN ORGANIZATIONAL STAGE, AND REGULATIONS ARE YET UNPUBLISHED. (TOP OFFICIAL IN INFORMATION PART OF GOC MONITORING GROUP TOLD ECON COUNSELOR THAT REQUESTS FOR INFORMATION AND COMPLAINTS ABOUT PRICES FROM PUBLIC WERE VERY HEAVY IN FIRST TWO WEEKS BUT

HAVE DROPPED OFF TO PRACTICALLY NIL.)

12. GOC DECISION TO STAND FAST ON WAGE SETTLEMENT FOR POSTAL WORKERS HAS PROBABLY INCREASED CREDIBILITY OF GOVERNMENT IN EYES OF PUBLIC ON ITS DETERMINATION TO SLOW WAGE-INDUCED INFLATION, AND NEWEST CPI INCREASE FOR OCTOBER (0.9 PERCENT) SHOULD GIVE ADDED AMMUNITION TO GOC OFFICIALS ON NEED TO COMBAT DANGERS OF CONTAINING INFLATIONARY SPIRAL.

13. GOC LUCKY THAT ITS FIRST TEST OF STRENGTH IS WITH A UNION WHICH HAS NO STRIKE FUND (SOME WORKERS HAVE ALREADY BROKEN RANKS AND RETURNED TO WORK SITES) AND WHOSE LEADERSHIP IS VIEWED WITH DISDAIN BY OTHER UNION LEADERS. NONETHELESS, ORGANIZED LABOR MAINTAINS ITS OPPOSITION TO PROGRAM THEREBY MAKING ITS SUCCESS QUESTIONABLE.

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